- REDACTED -
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ComEd Ex. 2.0

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION	)	
On Its Own Motion	)	
-vs-	)	
COMMONWEALTH EDISON COMPANY	)	No. 99-0282
	)	
Proceeding pursuant to Section 16-111(g) of the	)	
Public Utilities Act concerning proposed sale of	)	
fossil fuel fired generating plants.	)	

TESTIMONY OF ROBERT E. BERDELLE
VICE PRESIDENT AND COMPTROLLER
COMMONWEALTH EDISON COMPANY

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TESTIMONY OF ROBERT E. BERDELLE
VICE PRESIDENT AND COMPTROLLER
<u>COMMONWEALTH EDISON COMPANY</u>

Q. What is your name?

A. Robert E. Berdelle.

Q. By whom are you employed?

A. Commonwealth Edison Company ("ComEd").

Q. What is your business address?

A. Ten South Dearborn Street, Chicago, Illinois.

Q. In what capacity are you employed by ComEd?

A. I am Vice President and Comptroller.

Q. How long have you been employed by ComEd?

A. Since 1978.

Q. Would you please describe your education and professional background?

A. Yes. I hold the degree of Bachelor of Business Administration in Finance from the University of Notre Dame. I am a Certified Public Accountant in the State of Illinois. I am a member of the National Association of Business Economists and the Financial Executives Institute. On December 16, 1998, I was appointed to my present position as Vice President and Comptroller of ComEd. Prior to that time, I served as Comptroller. I have also held a variety of positions, including Manager of Financial Reporting, Director of Strategic Analysis, Director of Revenue Requirements, Regulatory Project Manager, District Manager for an operating unit of the company and Regulatory Affairs Director.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to discuss (i) how the sale of ComEd fossil-fueled generating stations and peaking units (collectively, the "Stations") will assist ComEd in maintaining and enhancing the reliability of its nuclear generating stations and transmission and distribution system; and (ii) ComEd's analysis of projected earned returns on common equity.

Q. Are you familiar with the Notice of Property Sale ("Notice") that has been filed by ComEd in this proceeding?

A. Yes.

Q. Are you familiar with the transaction that is described in that Notice?

A. Yes.

Q. How will the sale of the Stations assist ComEd in maintaining and enhancing the reliability of its transmission and distribution system and nuclear operations?

A. The sale will generate funds that ComEd will use to finance projects that are intended to maintain and enhance the reliability of its transmission and distribution system and its nuclear operations. When ComEd prepared its budgets and determined what projects would be implemented, ComEd had already begun the process of selling the Stations and anticipated that it would be able to fund some of the projects with the cash generated by the sale. For example, in the fall of 1998, when ComEd increased its transmission and distribution budget by approximately 30 percent, ComEd expected that a portion of the increase would be funded by the cash generated by the sale. Absent receipt of cash from the sale of the Stations, the projects would have to be funded from alternative sources, including the potential issuance of new debt.

Q. How much cash will be used to fund projects that will assist ComEd in maintaining and enhancing the reliability of its transmission and distribution system and nuclear operations?

A. Approximately $400 million will initially be used to fund projects that are intended for these purposes. In addition, ComEd will receive interest on the approximately $2.45 billion of notes that Unicom Investment Inc. ("UII") will give ComEd for the remainder of the purchase price (the "UII Notes"). It is expected that the interest income to ComEd would exceed $100 million annually in the initial years before principal amortization. Similarly, as the UII Notes mature, UII will remit the principal amount of each UII Note to ComEd. The interest income and principal payments will be a regular source of cash for ComEd over the next twelve years and will be available for general corporate purposes, including funding additional projects that will maintain and enhance ComEd's transmission and distribution systems and nuclear operations, and redeeming debt or avoiding the issuance of new debt.

Q. Are there specific projects related to ComEd's nuclear stations that ComEd intends to finance with cash received as a result of the sale?

A. Yes. [redacted][1]

Q. Are there specific projects related to ComEd's transmission and distribution system that ComEd expects to finance with cash resulting from the sale?

A. Yes. There are four specific programs. First, ComEd expects to spend approximately $49.3 million on its infrastructure refurbishment and distribution cable program. The focus of this program is to replace and refurbish equipment and distribution cable, primarily related to substation facilities, before potential failure of that equipment.

Second, ComEd expects to spend approximately $64.5 million on its distribution target programs. These programs are intended to improve the portions of the distribution system used to serve customers who have more than the average amount of interruptions,

[1] The designated text was redacted because it includes confidential and proprietary information.

including those served by feeders with reliability that is within the lowest one percentile (as determined by interruption frequency).

Third, ComEd expects to spend approximately $83.8 million on its distribution system automation program. This program includes the installation of sensing devices and automated switches on the distribution system. The sensing devices will allow distribution outage information to be automatically sent to the dispatcher so a crew can be sent to resolve problems sooner than would otherwise be the case. The automated switches will allow certain service restoration work to be performed automatically.

Fourth, approximately $109.5 million is expected to be spent on transmission network upgrades. The specific upgrades will include (1) upgrades necessary to support independent power producers; and (2) relocating, reconfiguring and upgrading metering and operational control facilities.

Q. Did ComEd prepare a projection of its earned returns on common equity through 2004?

A. Yes, it did. ComEd prepared projections of its earned returns on common equity through 2004 both with and without the sale. ComEd then compared the results to forecasted returns on 30-year United States Treasury bonds to determine if the projected earned returns in the "sell" case would fall below the forecasted Treasury bond rates and, thus, render ComEd eligible to seek a rate increase during the transition period. As discussed below, in no case does ComEd's projected earned return for a relevant two-year period fall below the corresponding average Treasury bond rate.

Q. How did ComEd calculate the projected returns?

A. ComEd's projected earned returns on common equity were calculated for each year through December 31, 2004, both with and without the transaction, using the methodology set forth in Section 16-111(d) of the Public Utilities Act (220 ILCS 5/16-111(d)). Thus, as required by that Section of the Act, ComEd made appropriate adjustments to remove the effects of accelerated depreciation and amortization expected to be recorded during each of the relevant years.

ComEd prepared projections based on each of the most extreme load retention scenarios: (a) with the assumption that ComEd continues to serve all of the load in its service territory, and (b) with the assumption that all customers take service from an alternative provider as soon as they become eligible to do so. In the 100 percent retention scenario, all non-residential customers were assumed to elect the purchase power option as soon as they were eligible to do so. This approach tends to overstate the adverse impact on earned returns because it incorporates the assumption that ComEd's revenues from these customers are reduced by the mitigation factor, a reduction that does not apply to customers taking bundled service from ComEd.

Q. Why did ComEd prepare projections based on these two scenarios?

A. At this time, it is uncertain what effects competition will have on customer loss and revenue attrition. As a result, we tested the extreme cases. If the earnings test for a rate filing were not met in either of those two cases, it would not be met at any level of customer loss between those two extremes. In other words, if ComEd's earned returns do not fall below the statutory bond yield "floor" under either of these scenarios, they will not fall beneath that floor at whatever load level between those two extremes ComEd is actually called upon to serve.

Q. What are the projected earned returns on common equity in the "keep" and "sell" cases?

A. The projected returns are set forth on Exhibit 2.1 to my testimony.

Q. Are the returns set forth on Exhibit 2.1 projections of what ComEd actually expects its returns on common equity to be, for financial reporting purposes, under the various scenarios studied?

A. No. The returns contained on Exhibit 2.1 are higher than the returns that ComEd would actually expect to achieve. This is because the projected return calculations include the adjustments, which I previously discussed, as required by Section 16-111(d) of the Act. These adjustments produce a projected return that is higher than it would be without the required adjustments.

Q. To what Treasury bond forecast did ComEd compare its projected earned returns?

A. The Treasury bond yields are set forth on Exhibit 2.1 to my testimony.

Q. What was the source of the Treasury Bond yield forecasts set forth on Exhibit 2.1?

A. ComEd utilized the Treasury bond yields forecasted by Regional Financial Associates ("RFA"). RFA provides analyses of the United States economy to institutional, corporate and government clients in the United States, Canada and Europe. RFA's services include publications, historical and forecast data bases and consulting.

Q. Is RFA an accepted source for the type of information utilized by ComEd in its analyses?

A. Yes. RFA is commonly recognized as an accepted source of Treasury bond forecasts and other similar information. Its forecasts are widely used by the financial community.

Q. What was the result of the comparison of the projected earned returns on common equity to the forecasted Treasury bond rates?

A. As shown on Exhibit 2.1, the projected earned returns on common equity through 2004 show that consummation of the Agreements does not affect ComEd's earned returns such that there is any likelihood that ComEd would be entitled to seek an increase in its base rates during the mandatory transition period. Indeed, even under the extreme scenarios studied, in all of the two-year averages of the "sell" cases, ComEd's projected average earned return is significantly higher -- by at least 430 basis points -- than the corresponding forecasted two-year average Treasury bond yield.

Q. Did ComEd perform any sensitivity analyses to determine what would be the result if the actual Treasury bond yield is greater or less than that forecasted by RFA?

A. Yes. As sensitivity analyses, ComEd compared its calculated earned returns to Treasury bond yields two statistical standard deviations higher and lower than RFA's forecasted yields. The standard deviations were calculated using historical monthly data from January 1996 through March 1999. The resulting yields are shown on Exhibit 2.1. Because the forecasted yields are within the range of the historical yields used in the calculation of the standard deviations, there is a probability of approximately 95 percent that the actual Treasury bond yields will be within two standard deviations of the yields forecasted by RFA.

Q. What were the result of the sensitivity analyses?

A. The sensitivity analyses confirm the result of the base analyses: in no case does ComEd's earned return fall below the level of the bond yield and, thus, in no case would ComEd be eligible to apply for a rate increase because of the sale of the Stations.

Q. Does this conclude your testimony?

A. Yes.

Exhibit 2.1

ComEd

Projected Earned Return on Common Equity

Retention	Fossil Sale	Actual 1998 (1)	1999 (1)	2000 (1)	2001 (1)	2002 (1)	2003 (1)	2004 (1)
			Single Year Average Earned Return					
100%	Sell		[redacted]					
100%	Keep	11.6%						
0%	Sell							
0%	Keep							

Retention	Fossil Sale	98/99	99/00	00/01	01/02	02/03	03/04
		Two Year Average Earned Return					
100%	Sell	[redacted]					
100%	Keep						
0%	Sell						
0%	Keep						

	1998	1999	2000	2001	2002	2003	2004
30 year T-Bond yield (2)	5.6%	5.3%	5.9%	6.7%	6.5%	6.0%	6.0%

	98/99	99/00	00/01	01/02	02/03	03/04
Two year average yield	5.4%	5.6%	6.3%	6.6%	6.2%	6.0%
Plus 2 standard deviations (3)	6.7%	6.9%	7.6%	7.9%	7.5%	7.3%
Less 2 standard deviations (3)	4.1%	4.3%	5.0%	5.3%	4.9%	4.7%

Notes:

1. ComEd's actual and projected earned returns have been calculated using the methodology set forth in Section 16-111(d) of the Act, and, accordingly, exclude the effects of accelerated depreciation and amortization. Actual reported earned returns are expected to be lower.

2. 1998 is the actual 12 month average yield ended Decmber 31, 1998. 1999 through 2004 are forecasted by RFA.

3. The historical standard deviation is calculated based on actual monthly yields from January 1996 through March 1999.